

MEMO

DATE: February 2, 2006

TO: Administration Committee and Regional Council

FROM: Bert Becker, Interim CFO, (213) 236-1804, becker@scag.ca.gov

SUBJECT: Subregional Audit Workplan



SUMMARY:

As part of SCAG's fiduciary responsibilities it has begun a program of audits of the subregions. This program was begun at the direction of the Audit Committee with the intent of completing the audits by the end of this fiscal year. The audits are to be performed in coordination with Caltrans Audit Division in order to avoid duplication of work, minimize disruption of the subregions' work load, and complete them sooner. Copies of the original and modified (as modified by the Audit Committee in November 2005) Internal Audit Work plan and a schedule of subregions to be audited, in order of priority, are attached.

BACKGROUND:

At their January 5, 2006 meeting the Regional Council requested that staff place on the agenda for their February meeting a discussion of who should be conducting subregional Overall Work Program (OWP) audits. At the January 12, 2006 meeting of the Audit Committee staff provided a report regarding the work plan associated with conducting subregional audits, including the scope, parameters and relationship of work anticipated to be undertaken by Caltrans Audit Division and SCAG staff. The Audit Committee requested that staff clarify portions of that report and submit it to the Regional Council.

There are four types of audits which are generally applicable to the subregions. For ease of understanding they can be categorized as 1) OWP audits; 2) Indirect Cost Allocation Plan (ICAP) audits; 3) Other (e.g., Local Assistance) audits; and 4) Preaward audits.

1) OWP Audits

The plan, as approved by the Audit Committee in November 2005 and reaffirmed in December 2005, was to conduct audits of the subregions for projects wholly, or in part, funded by SCAG through the OWP during three fiscal years, 2002-03 through 2004-05. The Committee expressed their desire to complete these audits by June 30, 2006.

2) ICAP Audits

When an agency desires to collect payments for their indirect costs as part of a grant program administered through Caltrans they must submit an Indirect Cost Allocation Plan request to Caltrans. Caltrans must approve this request and conduct an audit of the recipient to verify the rate to be charged. This allows the recipient to collect monies spent on overhead (generally administrative costs) in addition to reimbursement for direct grant eligible program costs. SCAG allows the subregions to collect indirect costs provided that they have an ICAP approved by a "cognizant agency", which, in the case of the subregions, is usually Caltrans. The decision to collect indirect costs is up to each subregion but it does require approval of the ICAP by Caltrans and subjects the subregion to an audit conducted by Caltrans.

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3) "Other" Audits

The third type of audits are designated for these purposes as "Other" audits. They generally are associated with the collection of other (non Consolidated Planning Grant) monies by the subregion such as Local Assistance funds. Some of the subregions collect a variety of grant monies and are subject to audit by the granting agency. Often these other monies come through Caltrans and are subject to audit by Caltrans.

4) Preaward Audits

A fourth type of audit would be a "Preaward Audit" that is done before awarding contracts that are \$250,000 or more. These audits are conducted on vendors by either SCAG or Caltrans (depending on workload).

All of these audits, whether conducted by SCAG's Internal Auditor or Caltrans auditors, are conducted in accordance with the standards presented in the Government Accountability Office's (GAO) Government Auditing Standards ("Yellow Book") and the standards for interim audits established by Caltrans Audits and Investigations. Because of these standards and guidelines, SCAG and Caltrans conduct, and would continue to conduct, audits in a consistent manner.

OWP audits and ICAP audits are very similar in nature. Both types involve a review of: a) the accounting system to insure that financial data is recorded and reported in accordance with generally accepted accounting principles; b) internal controls; c) the labor charging system to substantiate the direct and indirect labor rates; d) the system of segregating direct and indirect costs; and, e) the recognition and segregation of costs that are unallowable for government contracts.

It is important to note that an OWP audit essentially includes the audit steps of an ICAP audit. Where they differ is that an OWP audit examines employee labor rates and invoices associated with a specific project(s) and an ICAP audit looks at indirect costs in greater detail. Because of the similarity of the information audited in both types of audits an agency that received a "clean" ICAP audit would normally expect they would also receive a "clean" OWP audit. Conversely, if it were discovered during the course of an ICAP audit that there were problems with the accounting for costs or record keeping it could be assumed that these same problems would surface during an OWP audit. But no matter which agency conducts an OWP audit it would be looking at the same things and any findings have the same impact, whether positive or negative, as long as it meets appropriate audit standards.

The SCAG Internal Auditor has completed OWP audits of two subregions, the City of Los Angeles and the Orange County Council of Governments (OCCOG). He is currently working on an OWP audit of the San Gabriel Valley Council of Governments (SGVCOG). During the course of the SCAG OWP audit of OCCOG, Caltrans was also doing a preaward audit at that agency. In addition, SCAG was about to begin an OWP audit at Gateway Cities Council of Governments (GCCOG) when it was discovered that Caltrans was also doing an ICAP audit there. It became apparent to both Caltrans Audit and the SCAG Internal Auditor that by working cooperatively, redundancy and overlap could be avoided. This would benefit the subregions by not having to deal with multiple audits from multiple agencies and it would benefit SCAG and Caltrans by maximizing the use of staff and minimizing the time necessary to complete all of the subregional audits. This information was discussed with the Audit Committee at their December 2005 meeting.

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Generally, the basic strategy that had been discussed at the Audit Committee with Caltrans is for Caltrans to complete an OWP audit for any subregion that requires an ICAP or "Other" audit (it should be noted that SCAG has no control over when or why Caltrans conducts an ICAP or "Other" audit). SCAG would conduct OWP audits on the remaining subregions. This strategy would vary somewhat based on staff availability or necessity. At this point in our discussions it appears that Caltrans would conduct an OWP audit at GCCOG since they have recently undertaken an ICAP audit of that agency. The SCAG Internal Auditor will be completing the audit at SGVCOG and begin an OWP audit at South Bay Cities Council of Governments. After coordinating with Caltrans over who will perform each of the remaining subregional audits, the intent is to complete most, if not all, of the subregional audits by the end of the fiscal year. The plan is to complete the remaining OWP audits in descending order based on billings to SCAG from the subregions over the last three fiscal years. It is possible that a recently completed audit of a subregion by another agency, including Caltrans, could possibly be used as input into our audit of the subregion and could reduce the amount of data collection required.

Finally, it is important to remember that Caltrans serves as SCAG's funding agency and the Federal Department of Transportation (DOT) has granted them the administrative oversight of all of our activities. This means that any activity that SCAG undertakes is subject to Caltrans review, including auditing at any time, at their discretion. SCAG, as the recipient of Federal and/or State funds, has a fiduciary responsibility for adherence to all the rules and regulations that come with those funds. When SCAG passes these funds to subregions or others, those organizations take on similar responsibilities. In the case of the subregions, this information is clearly presented in the Continuing Cooperative Agreement signed by each subregion and SCAG.

Attachments: Original Internal Auditor Workplan
Modified Internal Auditor Workplan
List of Subregions to be audited

Memorandum

Date: November 1, 2005

To: Sid Tyler, Chairman, Audit and Best Practices Subcommittee

To: Heather Copp, CFO

From: Richard Howard, Internal Auditor

Subject: Proposed Internal Audit Plan for Fiscal Year 2005-2006

The following is proposed for the Internal Audit Plan for this fiscal year. Total is 1,720 hours.

1. Prepare the Request For Proposal (RFP) for the annual external financial audit for the fiscal year ended June 30, 2006 and participate in selection of a new audit firm.

Estimate of Hours 160 Completion Date-April 2006

2. Conduct audits of the subregions for compliance with SCAG, State and Federal policies and procedures.

Estimate of Hours 740 Completion Date-June 2006

3. Conduct pre-award audits of contracts over \$250,000 to insure that contractors are proposing costs that are reasonable, allowable and in accordance with Federal Acquisition Regulations and OMB Circulars and Regulations.

Estimate of Hours 400 Completion Date-June 2006

4. Coordinate the Caltrans audit, the annual external financial audit and any other external audits during the fiscal year.

Estimate of Hours 160 Completion Date-March 2006

5. Review the internal controls associated with the SAP accounting system to insure the integrity of the SCAG financial records.

Estimate of Hours 160 Completion Date-June 2006

6. Conduct internal audits of selected SCAG program areas to insure compliance with policies and procedures.

Estimate of Hours 100 Completion Date-May 2006

Memorandum

Date: January 12, 2006

To: Sid Tyler, Chairman, Audit and Best Practices Subcommittee

To: Bert Becker, Interim CFO

From: Richard Howard, Internal Auditor

Subject: Modified Internal Audit Workplan for Fiscal Year 2005-2006

The following is the modified Internal Audit Workplan for this fiscal year, based on the Committee's recommendation. Hours total 1,720.

1. Conduct audits of the subregions for compliance with SCAG, State and Federal policies and procedures.

Estimate of Hours 920 Completion Date-June 2006

2. Conduct pre-award audits of contracts over \$250,000 to insure that contractors are proposing costs that are reasonable, allowable and in accordance with Federal Acquisition Regulations and OMB Circulars and Regulations.

Estimate of Hours 360 Completion Date-June 2006

3. Coordinate the Caltrans audit, the annual external financial audit and any other external audits during the fiscal year.

Estimate of Hours 160 Completion Date-March 2006

4. Prepare the Request For Proposal (RFP) for the annual external financial audit for the fiscal year ended June 30, 2006 and participate in selection of a new audit firm.

Estimate of Hours 120 Completion Date-April 2006

5. Review the internal controls associated with the SAP accounting system to insure the integrity of the SCAG financial records.

Estimate of Hours 80 Completion Date-June 2006

6. Conduct internal audits of selected SCAG program areas to insure compliance with policies and procedures.

Estimate of Hours 80 Completion Date-May 2006

Southern California Association of Governments
List of Subregions To Be Audited
In Order of Billings – 2002 to 2005

Subregion

Western Riverside Council of Governments (WRCOG) *
Gateway Cities Council of Governments (GCCOG) *
San Bernardino Associated Governments (SANBAG) *
Ventura Council of Governments (VCOG) *
 Also Including: Ventura County
 Ventura County Transportation Commission
Coachella Valley Association of Governments (CVAG)
South Bay Cities Council of Governments (SBCCOG)
Imperial Valley Association of Governments (IVAG)
North Los Angeles County
Arroyo Verdugo Cities
Las Virgenes Malibu Conejo Council of Governments (LVMCCOG)
Westside Cities

*Subregions that have, or are planning to have, an Indirect Cost (IC) Plan.

Audits Completed or in Progress:

City of Los Angeles
Orange County Council of Governments (OCCOG)
San Gabriel Valley Council of Governments (SGVCOG)